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Economic Conditions
Governmental Finance
United States Securities

New York, July, 1926.

General Business Conditions

THE second half of the year opens with general business on a level of activity not far below that prevailing when the year began. Some lines, it is true, have failed to fully maintain the active pace of earlier months, but generally speaking trade and production have held up better than many have expected. Commodity prices have continued to show more stability, and retail trade has responded to more seasonable weather in a manner that speaks well for the ability and willingness of people to buy when conditions are at all propitious. These factors, together with a considerable recovery in the stock market, have helped to dispel much of the pessimism that began to crop out last Spring.

Most of the fears of business reaction in the latter half of the year have been based on possibilities of a slump in the so-called key industries, namely, steel, building, and automobile manufacturing, and thus far these industries have failed to justify pessimistic predictions. Steel buying has picked up lately to a degree that has surprised and encouraged the trade, and prices of structural steel have been marked up $2 a ton, following an advance on bars in May. Building contracts awarded during May showed a gain of 10 per cent over last year. Production of passenger cars and trucks in the same month, while off from the high levels of preceding months, was 419,513 or 2.3 per cent ahead of May last year, and although competition is increasing and all companies are not sharing equally in the business the record of the popular makes shows that the market for the kind of a car the public wants is by no means exhausted.

Tying in with the high level of building is activity in the lumber industry which is reported to be above normal for this season. Non-ferrous metals have been more active and firmer. Electrical trade is reported brisk, hardware is in good demand, and prospects for machinery and machine tools have apparently improved. The shoe trade, which was hurt early in the season by bad weather, is now picking up. In short, with the exception principally of the textile industries, of which more will be said later, business generally appears to be making a very satisfactory record. That this is in fact the case appears to be demonstrated even more conclusively by the high level of employment throughout the country, and the continued attainment of new records in railway traffic and the volume of checks drawn and cashed at banks. The following table comparing average daily debits by months in 1925 and 1926 shows the extent to which the figures have been maintaining their early year gains over last year.

	1925	1926	Per cent Increase
January	$856,813,000	$943,231,000	10.1
February	844,154,000	912,714,000	8.1
March	816,108,000	867,854,000	6.3
April	792,000,000	866,000,000	9.3
May	816,000,000	857,034,000	5.0
June 1-23	823,000,000	877,902,000	6.6

Foreign Trade

The recovery of our foreign trade in May from an import to an export balance for the first time since last December was generally commented upon as a favorable development, though it is doubtful whether this change has all the significance some have attached to it. America's position as a creditor nation naturally carries with it the probability of larger imports, but there is no evidence that the larger import movement of the past year—which has been due to a great extent to non-competitive articles such as rubber, silk, and coffee—has affected us adversely. The figures of finished manufactures exported, which in the eleven months ended May 30 amounted to $1,782,000,000, the largest since 1921 and 17 per cent ahead of the eleven months ended May 30 last year, show that American industry has been meeting competition successfully, not alone in the home but also in foreign markets.

Business Holding Up Despite Skepticism

Despite the skepticism as to the outlook that has been continuously displayed during

the past six months, and the handicaps of weather, falling commodity prices and a bear stock market much of the time, business has displayed a vitality that gives much assurance as to the soundness of its foundations. Doubtless one of the reasons why the present building boom has held up longer than generally anticipated has been the fact that it is the result not alone of the shortage accumulated during the war, but also of the great changes that have taken place in standards of living and in standards of efficiency in industry. These changes have rendered our dwellings and office buildings and factories obsolete, and necessitated the reconstruction of large sections of our cities and our manufacturing plants to conform to more modern ideas and requirements.

After all the fundamental cause of our prosperity over the past few years has not been the activity of any one industry or group of industries, but rather the great increase in per capita production which has made it possible for each worker to share in a larger way in the returns from industry, and thus maintained consumption on a level equal even to the high level of production. This general state of well being, together with the growing diversification of industry, has contributed to increased stability and made business less susceptible to shocks at any given point. The present situation is conspicuous for the absence of the usual premonitory symptoms of depression, price inflation and tight money.

Agricultural Conditions

Ordinarily June is too early to give much of a line on crop possibilities, and this year the outlook has been rendered more uncertain by the late start obtained by most of the crops. Winter wheat prospects are pretty well known, with the probable yield estimated by the Department of Agriculture on June 1 at 543,000,000 bushels, approximately 145,000,000 bushels more than last year, but somewhat below the five-year average. Harvesting has been under way in Texas, Oklahoma, and Kansas, since the middle of June, and wheat from those sections is moving early, due both to warm weather experienced early in the year, and to the growing use of the combine, a new invention which cuts and threshes the standing grain practically in one operation. Large numbers of these machines are reported selling through the wheat belt, with a resultant large reduction in the cost of harvesting. Operating a combine, three men can do in a comparatively short time the work formerly required of a dozen spread out through the cutting, shocking, and threshing periods.

Spring wheat condition June 1 was placed at 78.5 per cent, the lowest in fifteen years, and owing to the backwardness of the crop the Government omitted the usual forecast of yield. Private estimates, however, place the probable yield at from 225,000,000 to 250,000,000 bushels, compared with 270,000,000 bushels last year.

Counting winter and spring wheat together makes the probable total yield in the vicinity of 770,000,000 bushels or more, compared with 669,000,000 bushels last year. Canada apparently has a good crop coming on, but European supplies are low, so that with crops there in poor condition and stocks of old wheat in this country unusually small, the statistical position appears strong. Cash premiums, however, and quotations for the July delivery have declined, due apparently to the early movement of winter wheat from the Southwest.

The Corn Hog Situation

During the past month hogs at Chicago have reached the highest price recorded since 1920, but corn has been bringing unsatisfactory prices owing to reports of slow consumption and a probability that considerable stocks will be carried over into the new crop year. This is a repetition of evidence showing that the short corn crop of 1924 upset the normal relationship between corn and hogs. The high price of corn caused a curtailment of the pig crop of 1925, a reduction of the amount of corn fed to hogs in 1925 and 1926, and a reduction of hog marketing in 1925 and 1926, thus causing abnormally high prices for hogs and abnormally low prices for corn. Furthermore, the high prices of hogs have caused a falling off in our exports of pork products, the most economical form in which corn can be exported. For the first eleven months of the current fiscal year these exports aggregated 1,162,783,000 pounds against 1,388,861,000 pounds in the corresponding months of the preceding year. A restoration of normal relations in the production of corn and hogs probably will be reached next Fall provided an average corn crop is grown this year, and will somewhat reduce the price of hogs and somewhat increase the price of corn, at the same time increasing our exports of pork products.

Commenting upon the corn-hog situation, the Department of Agriculture has issued a warning against over-doing hog production. Following is an excerpt from this statement:

> The hog market last month reached the highest point in six years. The price advance was the greatest during any May in twenty-five years, except for certain war time inflation years. With the supply of hogs in sight for slaughter no greater than last year, with pork products in storage 27 per cent. or equivalent to 1,500,000 hogs less than last year, hogs are in exceedingly strong market position for the next five months. The corn-hog ratio is near the highest on record. It is distinctly time now for hog producers to bear in mind the violent downswing in prices that has been caused, in times past, by over-expansion under similar price relationships.

The Cattle Industry

Range conditions have been the best in several years, and the cattle outlook continues to be regarded with optimism. Along with hogs, lambs reached new high levels for June since 1920, and cattle and sheep were nearly up to the year's high level. As high prices of livestock have not been accompanied by corresponding advances in meat products, packers are having an unsatisfactory year as to profits.

Cotton

With prospects good for another bumper crop of cotton, the cotton market broke out of its rut early in June when on active trading spot at New York declined to 18 cents, a new low point since 1922, whence there was a later recovery to around 18½ on reports of rainy weather. Private condition estimates averaging over 75 per cent of normal, compared with a ten-year average of 73.5 per cent for June 25, are taken to forecast a crop of something over 15,000,000 bales, with estimates of some good authorities running as high as 15,700,000 bales, compared with last year's final outturn of 16,086,000 bales. Exports have made a somewhat better showing of late, the cumulative figures for the year up to June 25 indicating a loss of 275,000 bales from a year ago, compared with a difference of around 400,000 bales at one time during the year, but domestic consumption continues to fall off, and a large carry-over at the end of the year is a certainty.

General Outlook in Agriculture

In general, despite uncertainties, the agricultural outlook is by no means discouraging. While Spring crops are backward there is still time for improvement, and the progress made during the past month in many sections is encouraging. Prices of grains are not what is desired, but livestock and fruits and vegetables continue to bring good returns. In the South, the decline in cotton prices is disappointing to planters, but lower prices will help to revive the goods industry here and abroad, and in the long run the South will prosper more when all branches of the cotton industry are functioning more normally.

Averaging prices of all farm products together, the index of agricultural purchasing power in terms of non-agricultural commodities, computed by the Department of Agriculture, does not indicate that farmers have lost ground lately, despite the decline in grains and cotton. At 87 per cent of pre-war normal parity in May this figure has been practically unchanged since last August, the lower prices of grains and cotton being accompanied by advances in livestock and fruits and vegetables and by some decline in non-agricultural commodities. While this still leaves the farmer at a considerable disadvantage as compared with normal parity with other types of commodities, the index is not lower than the level prevaling during a considerable part of the marketing period last year. Meantime, through the increasing use of machinery the farmer is harvesting his crop more cheaply than before. Sales by the big mail order and farm implement houses all through the year have given a practical demonstration of farm buying power, and nothing has yet happened to indicate that this has been seriously impaired.

The Oil Industry

The recent rise in the prices of crude petroleum and refined products and the improved outlook for the industry generally are worthy of more than passing comment. This line has not had a really successful year since 1920, although the profits of the leading companies in 1925 showed gratifying gains over the years immediately preceding and the indications are that 1926 will be still better. Such monthly and quarterly earning reports as have been issued so far this year show increases as compared with the corresponding periods of 1925.

Gasoline is the product in chief demand and during the last few years its production has grown by leaps and bounds to supply the large number of automobiles, trucks and buses now in use. The registration of such vehicles in the United States passed the 21,000,000 mark this spring; at the beginning of 1916 the total registration was only 2,445,000 so that in ten years the increase has been nearly nine-fold.

To meet this demand there was produced in this country last year 10,886,127,000 gallons of gasoline, an average of 907,177,000 gallons per month. Domestic consumption took 9,362,094,000 gallons, and 1,330,314,000 gallons or 12.2 per cent was exported. As home consumption and exports combined fell 193,719,000 gallons short of equalling total production, the stocks at the end of the year were increased by the amount of this excess.

Gasoline in storage increased in January and February, 1926 due to the customary low demand in those months, and increased in March, also due to the delayed Spring weather. Stocks on March 31 amounted to 1,936,336,000 gallons, the highest figure ever reached, and were drawn down only 10,000,000 gallons during April. In some quarters serious concern has been expressed over this large inventory.

The domestic consumption, however, is at a higher rate than ever before at this time of the year, running 15 per cent ahead of 1925 and 50 per cent over 1924, so that if stocks be considered in relation to current consumption, they are no larger relatively than before. The April 30 storage in the last two years represented 57 days' supply at the April rate. This is certainly not excessive, and with normal consumption and exports this summer the

stocks should be greatly reduced by fall. Exports of 189,000,000 gallons in May, 1926 were the largest for any month in history. Authorities in the oil trade regard the gasoline situation as stronger than at any time for several years.

The "Cracking" Process

The tremendous production of gasoline at the present time is made possible only by the use of various "cracking" processes which have been discovered in recent years to supplement the usual refining operations. The crude petroleum is first distilled by the ordinary methods into its component parts of gases, naphthas, gasoline, kerosene, light and heavy paraffin distillate (used for lubricating oils and greases), fuel oil and tar. Then the relatively low value fuel oil is again distilled by being subjected to very high temperature and pressure, causing a breaking down of some of its elements into gasoline.

In 1916 the average yield of gasoline from crude oil was 19 per cent, which has been increased to over 38 per cent at the present time. Last year the world production of crude petroleum was 1,066,220,000 barrels, of which the United States contributed 764,000,000 barrels or 71.6 per cent. Without these improvements in refinery practice the 1925 gasoline output in this country alone would have required more than the entire world production of crude. It has added millions of barrels to our oil supply and saved the day for the motor car.

Crude petroleum of the Kansas-Oklahoma grade is now quoted around $2.05 per barrel compared with an average of $1.68 for the year 1925, and gasoline is selling for 21 cents per gallon wholesale in New York compared with an average of 19.1 cents for 1925. The rising prices of these and other oil products are of course a reflection of the heavier demand, but are caused also by the fact that crude production of around 2,000,000 barrels per day is actually 10 per cent less than a year ago.

There has been also a strengthening of kerosene prices since last year, due to the fact that consumption has required large withdrawals from stocks on hand. These stocks in April, 1925 were 10,349,000 barrels; they fell to 7,014,000 in April, 1926, a drop of 32 per cent. Demand is growing continually for fuel in farm tractors, diesel engines and motor boats, while domestic heating took more than usual this year on account of the late Spring. Production of kerosene has not kept pace with that of gasoline, as the refiners are turning out as small a yield of kerosene as possible due to the comparatively low price.

The higher prices for petroleum products generally have already had the effect of stimulating extensive new drilling, not alone in the big-well district of the Mid-Continent and California but in the old eastern fields as well. If any sizable volume of flush production should be brought in, as happened in the "deep sand reserve," of Smackover, Arkansas last year or the "Los Angeles basin" in 1923, the price level might turn downward again.

The industry, however, has been put into a sounder position as a result of numerous mergers which have taken place during the last year or two. The purposes behind these consolidations are to obtain adequate supplies of crude petroleum to meet the growing refinery demand, to control to some extent the exploitation of new fields, and to secure the usual gains in efficiency of operation and stability of earnings resulting from large scale, integrated production.

The oil trade has now every reason to look forward to an investment return that will be commensurate with the large capital employed and the unusual hazards characteristic of this line of business. The improved outlook has been partly discounted in the stock market, where the shares of leading oil companies are around their highest levels of the year.

Government Finance

Decision of the Treasury to omit the usual refinancing issue at the June 15 quarterly tax day aroused widespread interest, not only because of its bearing on prices of outstanding securities, but because of the evidence it gives of progress made by the Government in handling the war debt. Heretofore the interest payments and public debt maturities falling due on the quarterly tax-payment dates, together with expected disbursements in excess of receipts until the next quarterly tax-payment, have invariably exceeded the quarterly tax returns, so that although some net debt reduction has usually taken place at these periods it has never before been possible fully to care for all obligations falling due without some additional financing. The past month, therefore, is something of a landmark in our post-war debt reduction program.

Omission of the June financing was made possible both because the maturities amounting to approximately $334,000,000 were somewhat smaller than usual and because the revenue returns this year were unexpectedly large, and the Treasury consequently carried forward a larger cash balance in the General Fund. In March the income tax payments amounting to $504,000,000 were over $100,000,000 above the estimates, and June returns, while not up to the March figures, still will be some $70,000,000 above June, 1925. Customs receipts, which have been the heaviest in the history of the country, are expected to make a showing some $20,000,000 above the first estimates. All of which has put the Treasury in a very strong position, making

possible the omission of further financing during the past month, and building up a surplus of ordinary receipts over ordinary expenditures amounting to $380,000,000 by the close of the fiscal year.

Including the payment of the June maturities of $334,000,000, the total interest bearing debt, on the basis of the May 31 preliminary Treasury statement, comes down to in the neighborhood of $19,500,000,000, divided as to type as shown by the following table. For the present fiscal year up to June 15 the preliminary figures indicate a reduction of approximately $750,000,000 (with the possibility that final figures may total between $800,000,000 and $900,000,000 for the entire year), and since the peak of debt on August 31, 1919, to nearly $7,000,000,000, or over 25 per cent.

CLASSIFICATION OF THE PUBLIC DEBT

		Per Cent of Total
Pre-war Bonds	$765,860,170.00	3.9
Liberty Loan & Treasury Bonds	16,246,871,900.00	83.4
Treasury Notes	1,612,405,600.00	8.3
Treasury Certificates	484,079,000.00	2.4
Treasury Savings Certificates	360,447,254.05	1.8
Total Interest-bearing Debt	$19,469,661,924.05	

Future Debt Reduction

This rapid rate of debt extinction, averaging about a billion dollars a year, naturally raises the question as to how long it may be expected to continue. While no precise statement can be made as to this, there appears little doubt but that the period of most rapid reduction is behind us. In his last annual report the Secretary of the Treasury discusses debt reduction, and points out that of a decrease of nearly 5 billions in the fiscal years 1920 through 1925, much the greater part was effected through application of surplus revenue and reduction in the Treasury General Fund, or working balance, while the smaller part came from retirements through the sinking fund, foreign debt payments, and miscellaneous minor receipts. Following is a statement showing proportionately the importance of these various means contributing to debt retirement during this period.

SOURCE OF FUNDS FOR DEBT RETIREMENT

Fiscal Years 1920-1925		Per Cent of Total
Reduction in General Fund	$1,039,000,000	20.9
Use of Surplus	1,678,000,000	33.7
Use of Sinking Fund	1,423,460,000	28.5
From Foreign Debt Settlements	620,908,000	12.4
From Miscellaneous	206,743,000	4.1
Total	4,968,111,000	

In future debt retirement, however, the general fund must be pretty well counted out, as it is now down to a point where no further reductions can be expected. Moreover, with the lower level of taxes now in force, it is doubtful whether we can expect to continue to roll up such large Treasury surpluses as in recent years, particularly when it is considered that these have been years of exceptional prosperity, and consequently of unusually high revenue. It seems probable, in short, that henceforward debt retirement will be limited to a larger extent to the operation of the sinking fund and foreign debt repayments than has been the case in the past.

The Problem of Early Maturities

In view of the present strong position of the Treasury and the highly satisfactory record of debt reduction made thus far, there seems no reason to anticipate any particular difficulty in caring for the heavy maturities falling due within the next few years. Up to and including June 1, 1931, approximately $5,025,000,-

PUBLIC DEBT MATURITIES TO JUNE 1, 1931*

Date of Maturity	Certificates of Indebtedness	Notes and Bonds	Treasury (War) Savings Certificates	Total	Cumulative Total
Sept. 15, 1926		$414,922,300		$414,922,300	$414,922,300
Dec. 15, 1926	$452,879,000			452,879,000	867,801,300
Dec. 15-31, 1926			1,794,386	1,794,386	869,595,686
Jan. 1, 1927	31,200,000†			31,200,000	900,795,686
Jan.-Sept. 1927			95,685,128	95,685,128	996,480,814
Mar. 15, 1927		668,201,400		668,201,400	1,664,682,214
Oct.-Dec. 1927			14,594,728	14,594,728	1,679,276,942
Dec. 15, 1927		355,779,900		355,779,900	2,035,056,842
Jan.-Nov. 1928			129,738,919	129,738,919	2,164,795,761
Sept. 15, 1928		2,568,272,950‡		2,568,272,950	4,733,068,711
During Dec. 1928			23,517,027	23,517,027	4,756,585,738
Jan.-July 15, 1929			95,117,066	95,117,066	4,851,702,804
Jan. 1, 1930		50,000,000†		50,000,000	4,901,702,804
Jan. 1, 1931		123,500,000†		123,500,000	5,025,202,804
TOTAL	$484,079,000	$4,180,676,550	$360,447,254	$5,025,202,804	

* From Preliminary Statement of the Public Debt, May 31, 1926. Exclusive of debt on which interest has ceased amounting to $13,259,310; second Liberty loan bonds amounting to $3,104,530,300, which are redeemable but do not mature within the period; and other interest-bearing obligations redeemable at the pleasure of the Government but not maturing within the period covered and not called for redemption amounting to $687,165,670.

† Adjusted Service Series.

‡ Third Liberty loan.

000 of outstanding issues will come due and have to be provided for either by redemption or refunding, including $2,568,000,000 of third Liberty loan bonds maturing in 1928. The table on the preceding page, selected from the last Treasury annual report and brought up to date through May 31 (with June, 1926 maturities deducted) illustrates the problem by showing the amounts and dates of the various public debt maturities running up to June 1, 1931.

Procedure in handling the debt has been very carefully worked out and will go forward smoothly to gradually reduce the amounts outstanding to more manageable proportions before they fall due. Back in 1921 the Treasury faced a similar situation when it had before it over 7½ billions of short-dated debt falling due within two years, including $4,000,000,000 of Victory notes. It was then that the Treasury announced its policy of orderly redemption and refinancing of the short-dated debt, with the result that by 1923 the entire 7½ billions had been either retired or refunded, including the Victory notes of which only $770,000,000 remained outstanding to be paid at the final maturity date.

Refunding the Third Liberty Loan

During the next few years the Treasury may be expected to pursue, so far as possible, a similar policy of gradual reduction, and preliminary steps in that direction have already included, besides the regular sinking fund purchases in the open market, the acceptance of $93,000,000 Thirds in payment for a like amount of the Treasury long term 4s offered in December, 1924, and the purchase by the Treasury direct from holders of approximately $188,000,000 Thirds in two lots, one in December, 1925, and the other in March, 1926. While the problem as to the Thirds is rendered somewhat more complicated by the fact that they are non-callable in advance of maturity, and also by the fact that purchases for the sinking fund must average not above par, the application of available funds to the retirement of the other short-dated debt as it falls due should tend to create a scarcity value for all outstanding issues, and thus provide a favorable setting for whatever refunding operations are necessary for the Thirds at the time of maturity.

Money and Banking

Money tendencies during June, as is often the case in the month when the quarterly tax payments fall due, were somewhat obscured by the heavy Treasury operations centering around the 15th. Call money was slightly firmer than in May, renewals on only two days falling below 4 per cent while they rose to 4¼ and 5 per cent late in the month when the effect of Treasury operations was supplemented by preparations for the heavy mid-year disbursements and currency withdrawals for July 4 holiday requirements. Stock market time money has also been a shade firmer, but prime open market commercial paper names have held unchanged at 4 per cent, and bank acceptances have ranged between 3¼ and 3⅜ per cent for 90-day maturities, or about the same as a month previous.

Government Tax Day Operations

At the outset of the quarterly tax period the Treasury and the Reserve banks faced two problems in connection with the tax operations,—first, the usual problem of preventing Treasury disbursements for maturing securities and interest on the public debt on June 15 from flooding the money market pending the clearance of tax-checks, and second, that of preventing undue firmness late in the month when completed tax collections, plus foreign debt payments (sums for which had accumulated here on deposit), were expected to considerably exceed the aggregate Government disbursements and thus draw upon money market resources.

Towards the solution of the first problem the Reserve banks adopted the usual device of a temporary sale in the New York market of Government securities from their own portfolio. Payments by banks for these securities, together with the fact that the British semiannual debt installment of approximately $68,000,000 was paid in United States securities of the June 15 maturity, thus reducing the cash redemptions by that amount, prevented an unusual excess of funds from accumulating, and call loan rates on only two days dropped below 4 per cent. Then, as the collection of the tax checks continued, the Reserve banks repurchased the securities they had temporarily sold and thus put back into the market the funds taken out during the period of redundancy.

To meet the situation late in the month when tax collections began to run ahead of the Government disbursements,—it appears, from the failure of Government deposits at the Reserve banks to increase, that the Treasury must have utilized this excess in the purchase of securities for the sinking fund, which would have the effect of returning to the market most of the funds as fast as collected and lessening the strain that would otherwise have developed.

Taking the tax period as a whole, aggregate receipts and disbursements of the Treasury foot up to between $800,000,000 and $900,000,000, a large part of which was concentrated in the New York market. That operations on so large a scale could take place with so little disturbance to money rates and money conditions generally is impressive evidence of the extent to which the Treasury and the Reserve banks have perfected the technique of handling large shifts of funds in the money market.

Member Bank Credit

The volume of commercial borrowing at the 700 principal member banks that report their figures weekly to the Federal reserve banks appears to be following a normal course for this season of the year. An unexpectedly large increase in commercial loans early in the month was offset by a later decline, so that on June 23 the totals were somewhat below a month previous, which is in accordance with the usual seasonal tendency. Compared with a year ago, however, the figures show an increase of $350,000,000.

Accompanying the recovery in the stock market, brokers' loans at New York have moved upward, and on June 13 at $2,533,000,000 were approximately $125,000,000 above the May low point, though still nearly $600,000,000 below the high levels of the middle of February.

The Money Outlook

With the completion of the mid-year disbursements and return of currency from circulation after July 5 a somewhat easier tone in the stock exchange money market than has prevailed during much of June would not be unexpected. At the same time, with the harvest coming on early this year and commercial demands generally well maintained, it is difficult to see, in the absence of additional stock market liquidation, how any further marking down of commercial money rates can be counted upon.

The Bond Market

The bond market during June gave an unusually good account of itself. In spite of a volume of new issues approaching previous records for the year, prices in all groups were well maintained and closed the month on about the same level as at its beginning. Signs of congestion are notably absent, most dealers' lists actually indicating a shortage of desirable offerings. The abundance of funds for long time investment, the unprecedented creation of new wealth, the subsidence of activity in some speculative fields and diversion of funds to more conservative channels, the prospect of only a fair volume of new issues during coming months, and the gradual release of funds from Government obligations are all factors making for the continuance of a good market for conservative bonds. Experienced institutional investors and others close to the investment markets are showing a strong preference for long term issues, thus indicating a conviction that there is little prospect of a serious recession and that the average level of prices for some years to come will be high.

While bond averages declined fractionally during the month, this slight change was due more to a readjustment in prices among the various investment groups than to any general downward tendency. The Dow-Jones average for forty listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on June 25th was 95.22 as compared with 95.36 on May 25th and with 93.08 on June 25th a year ago. A feature of the market during the month was the establishment of a record high average of 95.05 for second grade railroad bonds, as against a high of 92.74 in 1917. The industrial group reached 100.10, the highest since the war. Advances in foreign issues, which have been showing a consistent improvement throughout the year, were also somewhat of a feature. As a result, the prevailing high yields have been lowered slightly, without, however, eliminating such bonds from the field of attractive returns.

United States Government Securities

The achievement of the United States Treasury Department in arranging for the payment of approximately $334,000,000 of maturing certificates on June 15th out of current receipts and without the flotation of new securities, gave a strong impetus to the Government bond market. Virtually all Government bonds listed on the New York Stock Exchange moved upward as a result, the Treasury 3¾s making a new high record for all time.

Federal Land Bank Issue

The most important new offering announced during the month was the $60,000,000 Ten-Thirty Year Federal Land Bank 4¼s. These bonds are dated July 1st, 1926, due July 1st, 1956, run without option of repayment during the first ten years, and were offered at 101 and interest to yield slightly over 4⅛ per cent. The issue met with immediate success, and prices are holding firm at around the original offering level. This is the first Federal Land Bank offering this year and bears a coupon rate one-quarter of one per cent smaller than the last issue of similar bonds. Federal Land Bank bonds are exempt from Federal, State, Municipal and local taxation and, while not direct Government obligations, have almost as good a market as Government issues themselves. These bonds are becoming increasingly popular with corporations desirous of keeping investment surpluses in liquid form and also with individual investors for whom complete tax exemption is of value. Figures made public in connection with the new offering show that during the eight years of active operation the capital of the twelve Federal Land Banks has been built up from $9,000,000 to over $55,000,000. On April 30, 1926, the capital was $55,166,340; reserves $7,562,500; undivided profits $4,955,829; and total assets $1,114,694,869. About $40,000,000 of the pro-

ceeds of this new issue will be used to refund 4½ per cent Federal Land Bank bonds now in the United States Treasury, thus effecting a saving to the Federal Land Banks of about $100,000 a year in interest charges.

The Municipal Market

After feeling its way cautiously for many weeks the municipal market gained impetus from the successful offering of Federal Land Bank bonds and from the Treasury announcement that no June refinancing would be necessary. With the surtax exemption upon all over $5,000 of Liberties lapsing on July 1st, there has been a noticeable movement of individual holders away from Liberty bonds to permanently tax exempt municipals. These various factors caused a distinct improvement in municipal prices during the month, many high grade issues reaching for the first time this year a yield basis of 4 per cent and under. While the municipal market has shown a steady improvement since January, advances in this group have not kept pace with those of other groups. The average yield on high grade city issues is still above the yield basis prevailing at the peak of the market in 1925, whereas the average yields of other groups without exception have declined substantially since then.

The Foreign Field

Foreign bonds generally were active during the month and moved upward in sympathy with domestic issues and as a result also of improved European conditions. The naming of M. Caillaux as Minister of Finance under Premier Briand was accompanied by an upward movement of over a point in the French 7s and in increasing strength in both the 7½s and 8s. Belgian issues also were strong. The outstanding feature in the European group, however, was the increased interest displayed in German industrial bonds, particularly those carrying stock purchase warrants, such as the Rhinelbe 7s and the German General Electric 6½s. This latter issue has had a rather sensational advance from its original offering price of 94 last December to a present figure of around 108, based largely upon the speculative possibilities of the stock purchase warrants. As the first warrants call for purchase of the stock at 23.80, they have a value of slightly more than $9 at the current quotation on the common of around $33. The German General Electric Company, commonly known as "A E G", is one of the oldest electric companies on the Continent. It was formed originally to manufacture and sell incandescent lamps under Edison patents, but has extended its scope of operations until now it does a broad business quite similar to that of the General Electric Company in this country. It is showing a healthy increase both in gross sales and net profits.

The most significant foreign issue offered during June was the $30,000,000 United Steel Works Corporation of Germany 25-Year Series "A" 6½s. This corporation was recently organized for the purpose of integrating the businesses of the four leading coal, iron and steel concerns in Germany. Upon acquisition of these properties, the corporation will be the largest industrial unit in Europe and one of the largest manufacturers of iron and steel in the world, ranking in productive capacity second only to the United States Steel Corporation. These bonds are secured by mortgage on fixed assets valued by American consulting engineers at $537,671,800, or over four times total funded debt, except bonds reserved for refunding. The offering was made at 96 and interest to yield over 6.80 per cent. An additional $30,000,000 of these bonds will be offered shortly in Germany and other European countries. Just at present there is an abundance of liquid funds in Germany, apparently, however, a more or less temporary situation inasmuch as a large amount of this money will be diverted to more active commercial channels when German industry again attains more normal proportions.

With an additional offering of $25,000,000 of 6½ per cent bonds due in 1957 the Brazilian Government completes its financial program for the present. This makes a total of $60,000,000 of Brazilian Bonds offered by the American syndicate, much of which eventually found its way abroad. An increase in the offering price from 90 and interest for the first installment sold about a month ago to 90½ for the bonds recently offered, indicates the improving position of Brazilian credit in American markets. These new issues are payable either in dollars or in pounds sterling and are proving quite as attractive to foreign investors as to investors in this country.

Among the most important issues offered during the month, both foreign and domestic, were the following:

$15,000,000.	Detroit Edison Co. Gen. & Ref. "B" 5s, due June 1, 1955, price 101½ and interest, to yield over 4.90 per cent.
10,000,000.	Bethlehem Steel Corp. Sec. 5 per cent Notes, due $2,500,000 each June 15 from 1929 to 1932, inclusive, offered at prices to yield from 4.75 per cent to 5.20 per cent, according to maturity.
15,000,000.	Prudence Co. Guar. Coll. Tr. 5½s, due May 1, 1961, price 100 and interest.
40,000,000.	Southern California Edison Co. Ref. Series 5s, due July 1, 1951, price 98½ and interest, to yield 5.10 per cent.
12,000,000.	Canadian Pacific Ry. Equip. Tr. 4½s, Series "B", due $500,000 each June 1 and December 1 from December 1, 1926 to June 1, 1938, inclusive, offered at prices to yield from 4.00 per cent to 4.55 per cent, according to maturity.
5,000,000.	Container Corp. of America 20 yr. 1st S. F. 6s, due June 15, 1946, price 99 and interest, to yield over 6.08 per cent.
5,750,000.	Montgomery Ward Properties Corp. 1st Series "A" 5s, due May 1, 1946, price 98½ and interest, to yield 5.12 per cent.

23,000,000. Nevada-California Elec. Corp. 30 yr. 1st Trust 5s, due April 1, 1956, price 95¼ and interest, to yield about 5.30 per cent.

15,000,000. Public Service Corp. of N. J. Sec. 5½s, due July 1, 1956, price 99 and interest, to yield about 5.57 per cent.

12,500,000. Southeastern Power & Light Co. Deb. Series "A" 6s, due September 1, 2025, price 95 and interest, to yield over 6.30 per cent.

60,000,000. Federal Land Bank 10 to 30 year 4¼s, due July 1, 1956, price 101 and interest, to yield over 4⅛ per cent to redeemable date (1936) and 4¼ per cent to redemption.

25,000,000. United States of Brazil S. F. 6½s, due October 1, 1957, price 90½ and interest, to yield, about 7.25 per cent.

9,000,000. Cumberland County Power & Light Co. 1st 4½s, due June 1, 1956, price 94½ and interest, to yield 4.85 per cent.

15,000,000. Great Northern Ry. Gen. Series "D" 4½s, due July 1, 1976, price 94 and interest, to yield over 4.80 per cent.

6,000,000. International Great Northern R. R. 1st Series "B" 5s, due July 1, 1956, price 95 and interest, to yield over 5.33 per cent.

9,635,000. Ohio Power Co. 1st & Rf. Series "D" 4½s, due June 1, 1956, price 93 and interest, to yield 4.95 per cent.

30,000,000. United Steel Works Corp. 25 yr. S. F. Series "A" 6½s, due June 1, 1951, price 96 and interest, to yield over 6.80 per cent.

Belgian Attempt at Currency Stabilization

The failure of the plan for stabilizing the currency of Belgium has been a sore disappointment to that country and has exerted a depressing influence in the other countries having the stabilization problem to deal with. The plan for Belgium was comprehensive, including an increase of taxation believed to be sufficient to relieve the Treasury of the necessity of increasing its indebtedness to the National Bank, a loan which would reduce the floating debt and particularly the debt to the Bank, thus strengthening the latter's command over the note circulation, the organization of a corporation, which the government would control, but in which the public would be invited to participate, to operate the railways, with a view to placing them definitely on a self-supporting basis and finally a foreign loan, divided between the American, British, Swiss, Dutch and Swedish markets, for stabilization reserves.

In the first nine months of 1925 the exchange rate of the Belgian franc to the dollar tended slightly downward from a little under 20 to 1 in January to 22.87 on September 15, but from the latter point it advanced to about 22 at the close of the year, under the influence of stabilization plans and probably with some systematic support. This rate was maintained until in March, and although the government had made no announcement and was not committed to resumption at any specified level the public generally expected that it would occur on that basis. In the meantime the French franc had been gradually sinking to about 28 to 1, and as business relations between France and Belgium are intimate and the two currencies always have been closely associated, considerable weight of opinion developed that the Belgian currency was overvalued and could not be sustained at the current rate. Apparently opinion in Belgium was not unanimous in support of the government's policy. In March it became known that the negotiations for a foreign loan had been unsuccessful and selling of Belgian exchange broke the rate sharply, and the decline continued until the Belgian rate resumed a close relationship to the French rate, and is now about 34 to the dollar.

Was Stabilization Practicable?

Whether the plan was essentially sound, if all measures for its support had been carried through, or premature and impracticable because of the close relations between the currencies of France and Belgium, is a subject upon which opinions differ. Much depends upon what is meant by impracticable. It is hardly too much to say that any country can maintain the gold standard independent of its neighbors if it adopts a correct policy and adheres to it despite some unfavorable temporary effects, but the temporary effects may arouse so much popular opposition as to render the policy impracticable in the opinion of the authorities. All of the countries of Europe which have resisted or eventually overcome currency inflation have experienced ill effects from the depreciating currencies of their neighbors. Switzerland and Holland were faithful to sound principles throughout, although in close relations with countries having depreciating currencies. Czechoslovakia went through a very trying experience in giving practical stability to her currency, while the other states with which she had intimate trade relations in the old Austrian empire were still inflating, and her big neighbor, Germany, was doing likewise. Trade conditions hardly could be more unfavorable for the establishment of monetary independence than in the case of Czechoslovakia, and that she was successful is proof that trade difficulties are not insuperable.

It is true that a depreciating currency gives a temporary stimulus to exports, to the disadvantage of competing countries having sound currencies. The reason is that foreign buyers are able to convert their stable currencies into the depreciating currency on more favorable terms and use the latter to obtain commodities in the same country at less than their real value. The effect in competitive territory is like any selling below normal costs, and causes some people to say that it is impracticable to maintain a sound currency beside a depreciating one. Depreciating currencies, however, soon prove to be the most impracticable ones that can be imagined. Whenever they stop depreciating the seeming advantage soon disappears, while if they con-

tinue to depreciate they become worthless, which is the acme of impracticability.

Undoubtedly Belgian industries were affected to some extent by French competition in the period during which the Belgian currency was stable and the French currency was depreciating, and the Belgian attempt at stabilization was made more difficult. To the extent that foreign orders were turned from Belgian to French industries the foreign trade balance of Belgium would be unfavorably affected, and this is a factor of direct bearing upon stabilization. It does not appear that in the aggregate this effect was very great, but possibly the period of time was not long enough to make a showing in trade statistics. However, it is significant that some of the most important Belgian industries manufacturing for export have been operating on a gold basis for several years, selling only in terms of gold currencies. They learned their lesson by observation in the period of German inflation.

Nevertheless, the divergence of the two currencies undoubtedly affected popular opinion and deprived the Belgian government of united support. Furthermore, the relation between French and Belgian exchange has been more intimate by reason of the fact that foreign trading in Belgian exchange always has been through Paris rather than direct with Brussels, this being due to the fact that exports from France to Belgium are much larger than the counter movement, with the result that Paris always has Belgian exchange to sell.

These conditions would not ultimately control, but they had to be overcome. The main question was whether the resources of the Treasury or National Bank were sufficient to afford a supply of exchange until the scarcity of currency and capital arising from sales of exchange would turn the movement in the other direction. This proved not to be the case.

Reconstructive Measures

The breakdown of the plan and lapse of the currency to a much lower level has occasioned heavy losses and is very much to be regretted, not alone for that reason but because it gives a setback to all stabilization plans in Europe. The Belgians are proceeding in resolute manner to make the best of the situation. It is highly creditable that little disagreement appears to exist between the principal political groups in the parliament. A coalition government has been formed in which all are represented, and a special advisory committee upon finance similarly composed. It has been agreed that governmental expenses shall be reduced and larger revenues provided by new taxation, for the purpose of covering all public expenditures and providing a sinking fund for debt-reduction. In cooperation with this policy the socialist party has consented to the postponement of certain social expenditures to which it has been committed and to a policy upon the new taxation which is generally acceptable. Under this harmonious arrangement the new tax measures have been promptly adopted by the parliament.

For the present it is probable that no comprehensive plan for stabilization will be adopted. Ultimately it is agreed, Belgium must return to the gold standard. Her industries are largely dependent upon foreign trade and she must have a standard of value definitely related to that in use by the greater part of the world. It will be necessary, however, to move cautiously and prepare an adequate foundation for the next attempt. When France establishes her currency on a firm basis, as she must do, the task of Belgium will be simplified.

Following the four years of paralysis in her industrial life and the destruction wrought among her industries during the war, Belgium has accomplished a remarkable recovery. The principal industries have been rebuilt, enlarged and modernized, so that their productive capacity is much greater than before the war and methods more economical. Industrially, the country is far ahead of its pre-war position. Great harbor works are under construction at Antwerp, with canals connecting the principal industrial districts with the port. Belgium as a country is one of the world's most important workshops. The people are skilled, industrious, intelligent, reasonable, and have capable leadership. Even under the unfavorable conditions of the present time, the amount of unemployment is comparatively small. As to the future solvency and progress of the country, there can be no doubt.

The French Situation

The difference between the Belgian and French situations is chiefly in the political conditions. Belgium was favored somewhat in its reconstruction work by a preferential agreement as to reparations, but so far as the industries are concerned the reconstruction work is practically completed in France, and, as with Belgium, the country is industrially stronger and more effective than before the war. France, however, is not predominantly an industrial nation, as Belgium is. Agriculture predominates, with many small holdings, and while there is an important number of large industries, France in a general sense is a country of small undertakings, in which individual industry, skill and artistic taste play a larger part than machinery. Before the war it was a country of general thrift and welfare, and the savings of the people caused the wealth of the country to be commonly exag-

gerated. A country does not accumulate great wealth simply by savings from small incomes, but by using its savings for industrial development. The French are a people of small average incomes, and naturally feel the burden of taxation keenly. It is not true that they are lightly taxed; on the contrary, taxation is very heavy upon the limited number who have ability to pay, subject to some evasion no doubt, as France has not had much experience with income taxes.

The heaviest of all taxation, however, has been that levied by the depreciation of the currency, which has reduced the value of the franc below three cents of United States money, as compared with a value of 19.3 cents before the war. The great body of thrifty people who held securities before the war, who bought government bonds to carry on the war, and who have bought government obligations since, to enable the reconstruction work to be carried on, have seen the value of their holdings diminish in this proportion. It is no wonder under the circumstances that the ability of the Government to finance itself has been seriously impaired.

The chief difficulty, however, appears to exist in the inharmonious relations among the numerous groups of the parliamentary body, which have prevented the adoption and maintenance of an effective financial policy. Seven ministers have tried their hands at this financial management in a little more than a year, only to step down and out because they could not have the support of the law-making body. Fundamental differences have existed as to the policies to be pursued, and in the absence of effective action the situation has drifted, while, as already said, increasing currency issues and their declining value have levied a heavier tax than any finance minister would have thought necessary to place the Treasury in a sound position.

An enormous task has been accomplished in the reconstruction of the devastated districts and in the restoration of the Treasury budget to approximately a balanced position. A little more effort, well directed and supported by a united government, apparently would have placed the currency and the Treasury in an assured position. Internal prices and the cost of living have lagged behind the rise of foreign exchange rates in terms of francs, so that it is not easy to say when the budget has been permanently balanced, but on the other hand, the public revenues tend to rise in some degree with the rise of prices, and interest on the internal debt, which constitutes one-half the Treasury expenditures, remains at the fixed rate.

The Bank of France holds in its vaults over 700,000,000 dollars value in gold, a reserve second in the world only to that of the Federal reserve system of the United States. The management, however, wisely as we believe, is unwilling to draw upon this reserve until a definite governmental policy has been adopted, and it can be assured that its own policy will have consistent support.

It should be possible to give stability to the French currency at approximately the present level, if governmental action is taken which will restore confidence among the French people and prompt them to rally around the government. In view of the losses which they have suffered heretofore, it is natural that they should want definite assurances.

The Italian Currency

The Belgian, French and Italian currencies are often spoken of as linked together sympathetically or in the minds of the public so closely that they must of necessity maintain approximately the same gold value. It is difficult to find any considerable basis for this theory. They had the same gold value before the war, but that has little to do with present values. The latter depend in the three cases upon many conditions which are quite different in the three countries. They have certain competitive relations which affect trade movements, as described in the case of Belgium, but these are less important as affecting Italy than in the case of the other two countries. Italy is practically free from the incumbrance of a floating debt which must be continually renewed and which under unfavorable conditions might be rapidly converted into currency. The Italian Treasury is enjoying revenues which show a good margin over expenditures. In these respects the Italian position is stronger than that of Belgium or France. Furthermore, the government of Italy is unified and has a definite and sound policy; in this respect the situation there differs from the situation in France.

When it comes to the balance of payments between Italy and foreign countries the situation is not quite so clear. Italy has an adverse trade balance, over against which are to be counted the expenditures of tourists in Italy, the remittances of Italian emigrants, the earnings of Italian shipping and perhaps other invisible items of smaller importance. It is not certain that these make a complete offset. The action of the exchanges of late show pressure, but in the present state of the exchange markets speculation is so important a factor that the cause of current fluctuations cannot be accurately named. In 1923 the rate on New York ranged between 22.6 and 23.4 lire to the dollar and in 1925 between 23.3 and 30.0. In the last two months the rate has declined from 24.8 to 27.5.

Probably the rate has been affected by the decline of the Belgian and French currencies,

but if so it signifies a speculative anticipation of the future course. Whether that anticipation is correct or not remains to be seen, but there seems to be little reason for supposing that there is any economic relationship requiring that the three currencies move together. What the public thinks about values, however, is very likely to influence values, at least temporarily.

The balance of trade on merchandise account always has been against Italy, but covered usually by the invisible credits named above. It is probable that the balance of payments on all accounts is not a very large sum. The government of the country is making every possible effort to increase exports and diminish imports in order to make the currency situation secure.

Restrictions Upon Trading in Exchange

All three of these countries endeavor to impose close control over exchange transactions in order to prevent adverse speculation or the transfer of capital to foreign countries, but there is room for doubt whether these regulations on the whole accomplish anything for the purposes in view. They are not completely effective in preventing the transfer of capital out of a country, but very effective in inducing everybody to avoid bringing capital into that country. They hamper legitimate international business in many ways and by so doing tend to restrain the action of the economic forces which always tend to restore normal relations.

Austria and Hungary

After the foregoing discussion of the three currencies in Europe which have been subjects of chief interest in the exchanges of late, it is pertinent to refer to the action of the Council of the League of Nations, taken at Geneva within the last month, announcing that the Governments of Austria and Hungary had complied with the conditions of the stabilization loans procured for them through the intercession of the League, and that their currencies had reached such a position of security that supervision of their finances by the League was no longer deemed necessary. Accordingly, the functions of the League representatives, Dr. Zimmerman at Vienna and Mr. Jeremiah Smith at Budapest, cease on July 1, 1926. Nothing could appear more desperate than the financial and industrial plight of these countries when the stabilization plans were put into effect, but both countries have been put on a sound basis.

The Cotton Goods Industry

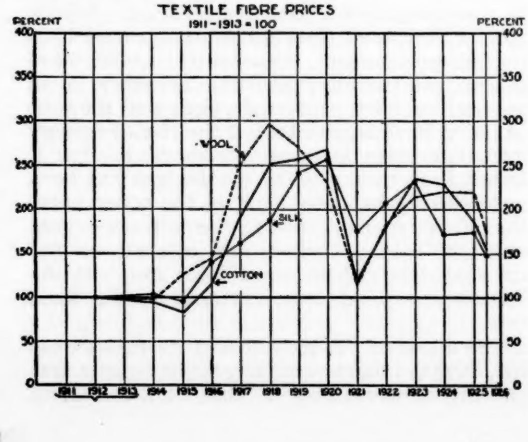
The further decrease in cotton mill activity in this country during May and June brought once more to the fore the difficult problems with which the cotton industry has been contending. Mill consumption of raw cotton excluding linters, amounting in May to 516,758 bales, shows a decrease of over 100,000 bales as compared with the high total consumed in March and was 15,000 bales below the total of May a year ago, with curtailment being further extended in June.

Various explanations have been advanced to account for this slackening of activity, including the long cold spring which curtailed the demand for cotton goods and the uncertainty regarding the cotton crop which likewise had a tendency to slow up the goods market. Undoubtedly these have been factors. The fact, however, that hard times have been more or less chronic in the industry for several years indicates that the trouble is more deeply seated than either of these explanations would indicate.

The cotton goods trade, in common with the woolen and silk goods trade, has had much to contend with in the way of wide fluctuations in the cost of the raw material. After the slump in 1920 and 1921, cotton at New York rose from around 12 cents to around 37 cents a pound at the end of 1923, and fell rapidly later in 1924 and in 1925. At the present price of around 18½ cents a pound the market shows a drop of approximately 26 per cent during the last year alone. Such a decline would have been enough to account for difficult times in the industry, and when added to this are other unfavorable factors it is no wonder that cotton manufacturing has been passing through a lean period.

The following diagram compares the fluctuation in prices of the three great textile raw materials—cotton, wool, and silk—in percentages of average prices during 1912, 1913, and 1914. All have swung widely and to the detriment of the goods industry, except in the case of silk, where the popularity of silks has created so great a demand that the silk goods industry has been able to prosper despite the fluctuations of the raw material.

TEXTILE FIBRE PRICES
1911-1913 = 100

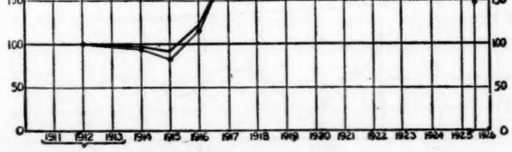


The chart shows also that all three raw materials tend to follow in a broad sort of way about the same general course. All three are in competition, and while other factors such as style exert an influence it is evident that when one of these materials gets much out of line with the others corrective factors seem to work to bring it back into closer adjustment. During most of the past two years cotton has been relatively high as compared with silk,—and for a time, with wool also,—and to that extent cotton goods have labored at a disadvantage as compared with silks and woolens. More recently, it is to be noted, by the further decline of cotton, this unfavorable spread has been diminished, and all three materials have come into closer adjustment, with cotton apparently now on a more favorable competing basis than has been the case in some time.

Prices of Raw Cotton and Finished Goods a Factor

Prosperity in the cotton goods industry is determined not alone by the price of cotton as compared with competing materials, but also by the relationship between prices of raw cotton and finished goods. To operate on a sound basis the manufacturer must be able to buy cotton at a price that will enable him to make it up into goods for sale at a profit. The following chart showing the course of cotton prices and the Fairchild index of cotton goods prices (all relative to a pre-war base), indicates that during much of the past few years cotton manufacturers have had to pay high prices for cotton, but owing to the unwillingness of the public to pay commensurate prices for cotton goods have not been able to advance their prices by a corresponding amount. This has naturally intensified the difficulties in the industry. Here too, however, there has been evidence recently of the development of more favorable conditions.

COTTON GOODS AND COTTON FIBRE PRICES
1911-1913 = 100

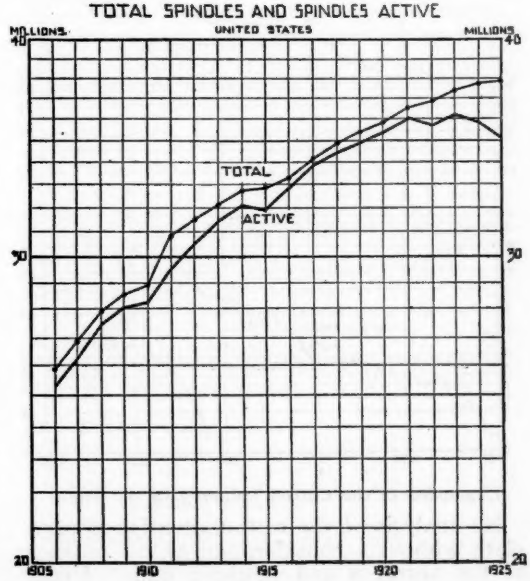


The Question of Over-Capacity

Important as these aforementioned factors are in the present textile situation, there is still another factor deserving of careful consideration. For some time it has been evident that there exists a considerable excess capacity in the industry and an inability to control this excess. The heavy outturn of cotton goods this Winter and Spring, and particularly in March, when mill consumption of raw cotton broke all records in face of an unfavorable goods situation, gives clear indication of this lack of control. Individual mills, by speeding up production, have sought to cut production costs to points where they could undersell their competitors, and have thus intensified the difficulties of the industry.

By some, this evident excess capacity has been attributed to too rapid expansion of plant facilities during the war and to the large increase in cotton milling in the South. The figures, however, do not seem to bear this out. The chart at the foot of the page, tracing by a dotted line the annual increase over a period of 20 years in the number of cotton spindles in place in this country, shows the growth of plant capacity to have been regular and consistent over most of the period, and gives no evidence of any unusual expansion during either the war or more recent years. The heavier line of the chart, however, which represents the number of spindles which were at one time or another active during each year, indicates that while expansion of plant has followed the normal trend, consumption has been falling away from its former rate of increase.

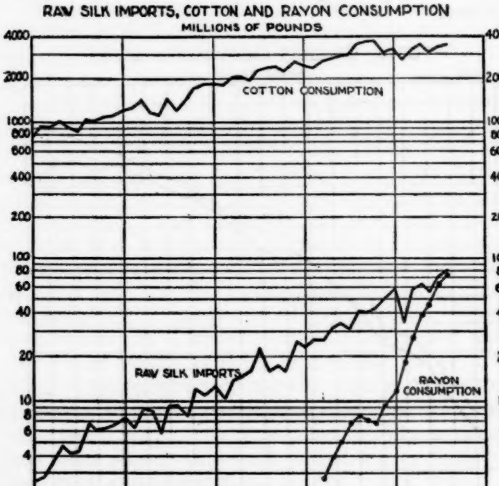
TOTAL SPINDLES AND SPINDLES ACTIVE
UNITED STATES



Causes of Decreased Consumption

With the difficulty thus apparently on the side of consumption the explanation appears to be twofold,—namely the fewer and shorter clothes worn by women and the greatly increased popularity of silks including rayon. As to the first no statistical comparisons are possible but that it has been a large factor must be generally conceded. The second is more easily measured. The following chart comparing the growth of cotton consumption with silk consumption (as measured by silk imports) and rayon consumption shows that whereas cotton consumption has been on something of a plateau during the past seven or eight years the use of silk and rayon has continued upwards without an important break. In view of the very much larger consumption of cotton as compared with both silk and rayon it cannot be said that the falling off in the consumption of cotton has been wholly due to the increase in that of silk. It is apparent however that cotton goods and fabrics other than silk have borne the brunt of the difficulties caused by present styles of dress. When it is considered that the cotton consumption figures in recent years have come to include a very large amount of cotton for use in the manufacture of automobile tires, and that our exports of cotton goods now exceed our imports, as contrasted with a reverse situation before the war, the failure of the net consumption figures to show a marked increase seems to reflect even more conclusively the extent to which the domestic use of cotton goods must have fallen off.

RAW SILK IMPORTS, COTTON AND RAYON CONSUMPTION
MILLIONS OF POUNDS



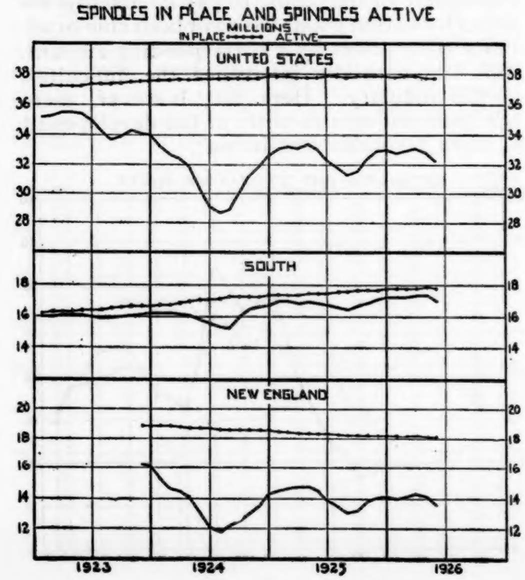
Expansion of the Cotton Industry in the South

No analysis of the cotton situation is complete without a consideration of the position of the northern and southern mills. Under stress of competition for a limited volume of business, the southern mills have had a considerable advantage over the northern mills by reason of lower production costs. For a great many years the industry in the South has been growing rapidly until at the present time nearly 50 per cent of the total spindleage is now located in that section chiefly in Alabama, the Carolinas, Georgia and Virginia. A number of factors have contributed to this growth, including lower wages (made possible partly by the climate which reduces the outlay per worker for fuel, clothing, and shelter), newer and more modern plant and equipment, more favorable labor laws, and the comparative absence of unions. In the beginning, the nearness to the raw cotton was also of some advantage, but at the present time, when so large a part of the cotton crop comes from across the Mississippi and can be carried from Texas by water to New England more cheaply than by rail to the Carolinas, this advantage has largely disappeared.

Possibly too much has been made also of the wage differential, for while the actual wage paid is considerably lower in the South, many of the mills, having sprung up so to speak in the open country side, have had to expend large sums for housing facilities for employes and for general welfare work which does not fully pay for itself and is therefore really a part of wage expense.

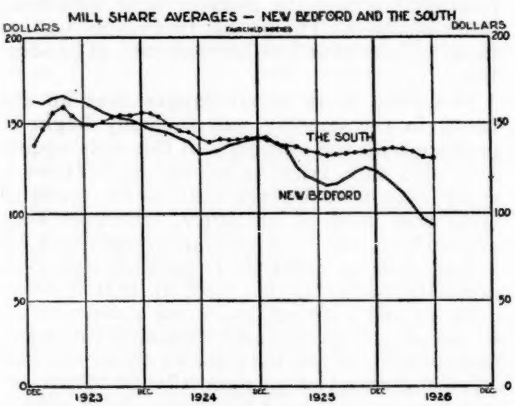
A more fundamental reason for lower southern production cost lies in longer working hours, and in the fact that the industry in that section is newer and therefore, generally speaking, its equipment is more up to date.

SPINDLES IN PLACE AND SPINDLES ACTIVE



What these various factors have meant in enabling the southern mills to keep going during the trying period of the past few years is shown by the foregoing chart comparing spindle activity in the South and in New England.

As might be expected from the higher rate of operation, earnings in the South have also held up better than in the North. The following chart comparing the movement of prices of cotton mill shares in the South and in New Bedford shows a downward trend of prices in both sections, but with a much greater decrease in the case of the New Bedford mills. This is despite the fact that New Bedford is one of the newer mill centers of the North and has therefore greater advantages as to equipment than many neighboring milling centers.



All of this goes to show that the cotton industry has a real problem before it, and that both New England and the South have a common interest in effecting an economic solution. High and fluctuating prices for raw cotton, fashion, and the rise of silk in popularity have spelled difficult times for the industry. Under these circumstances temporary mill curtailment, while it may doubtless effect improvement for a time, can hardly be expected to work a permanent cure. This, it seems more probable, will come in due time through increased stability of cotton prices, and discovery within the industry of the means of broadening the market for cotton goods through production of fabrics and styles carrying greater popular appeal, and perfection of methods of distribution to conform more closely to modern conditions of small lot orders and rapidly changing styles.

As has already been indicated in foregoing paragraphs, some of the maladjustments between cotton and other raw materials, and between cotton and cotton goods, have been to a considerable extent corrected. Stocks of goods apparently have not been allowed to accumulate. During the past month representatives of New England and Southern mills have joined together in a conference over common problems and to consider among other things the advisability of setting up some central bureau to collect and disseminate statistical information regarding the industry, and to generally facilitate that greater degree of cooperation that has hitherto been lacking. Whether these plans fully materialize or not, the move is significant in indicating for the first time a spirit of real cooperation between the two great sections of the industry. These are among the brighter aspects of the situation and tend to promote confidence that the cotton industry will find a way out of its difficulties.

Farm Income

In contrast with the figures for average farm income throughout the United States which are often quoted as showing the depressed conditions in agriculture, there are results of special surveys by State agricultural colleges and experiment stations which make a different showing and with more detail. We gave in the April Bulletin a summary of surveys made in 1923 and 1925 in North Dakota by the College of Agriculture of that state, and give below figures compiled by the Minnesota Farm Management Service of the State University, appearing in Service Notes No. 40. The figures are presented in a manner to show a comparison between the farm making the best showing and an average of all the others. The report is as follows:

All studies of farm income show a wide variation between different farms. Even in the same community where weather, soil and market conditions are quite uniform some farmers make materially larger incomes than others. This is not, however, a peculiar characteristic of farming. It is equally true of stores and factories, banks and railroads. In any business there are certain methods and practices and certain types of organization that yield larger profits than others. The manager who succeeds in combining these methods and practices in his organization finds his success reflected in increased profits.

In Farm Management Service Notes No. 39 some of the factors of success in profitable dairy farm organization were presented. In this number a farm in Cottonwood County is used to illustrate profitable practices on a corn, beef-cattle and hog farm. This farm consists of 191 acres of which 131 are in crops. In soil and topography it is fairly typical of the county. In the following table is presented a comparison between the average income from this farm for the years 1923 and 1924 and the average income from all the farms on the statistical route in which it is included.

	This Farm	Route Average
RECEIPTS:		
Cattle	$1,894	$1,124
Swine	1,674	978
Poultry	438	269
Other livestock	42	112
Crops	1,147	648
Miscellaneous	570	127
Total	$5,765	$3,258

	This Farm	Route Average
EXPENSES:		
Labor	$ 71	$ 69
Livestock expense	719	525
Crop expense	282	156
Bldgs. & machinery	240	464
Unpaid family labor	614	326
Other	584	388
	$2,510	$1,928
Farm Income	$3,255	$1,330
Interest at 5 per cent	1,646*	832*
Farmers labor income	$1,609	$498

*On this farm the entire acreage was owned by the operator; on the other farms about one-half was rented.

Although this farm is no larger than the average for the route, the operator received more than three times as much for his labor and management as did the average of the group.

It is especially noteworthy that the kinds of products to which the most profitable farm was devoted were about the same as those grown on the other farms. It was a livestock rather than a dairy farm, and the outstanding superiority of results was due almost wholly to a larger output of crops and livestock per acre. Each acre produced on the average as much as 1.6 acres on the other farms in the route and 1.9 as much as the average for the county. The Report says upon this point:

These larger yields are not the result of any advantage in greater natural fertility of the soil on this farm. They are very largely the result of twenty years of good farming practices. One of these practices is the large use of clover, alfalfa and other legumes that have been used to maintain the soil fertility. The other is the liberal application of manure made possible by the large amount of livestock maintained.

Twenty-one per cent of the crop acreage of this farm was devoted to clover and alfalfa as compared with an average of 11 per cent in tame hay on the route farms and 7 per cent for the county as a whole. Since part of this tame hay is timothy and other non-legumes the advantage is greater than the figures indicate.

There were 34½ animal units of livestock to each 100 acres of crops on this farm as compared with an average of 22¾ on the route and 13¾ for the county. This heavier stocking is made possible by the larger yields of the feed crops. * * *

High yields of crops, however, are not the only cause for the larger returns on this farm. Pork is produced at an average profit of $1.43 per 100 pounds as compared with the average for the route of 46 cents. Approximately one bushel less corn was required to produce this amount of pork. This economy of production was made possible by the liberal use of alfalfa and rape pasture and the balancing of the corn ration with sufficient tankage. This advantage in pork production is increased further by the fact that this farm produced more than twice as much pork as the others. * * *

This comparison demonstrates the results of good farming practices. It was no mere accident that this farmer should receive more than three times as large a net income as other farmers in the same community. Twenty years of soil building with legumes and farm manures pay large dividends. * * *

The results secured by this farmer indicate the possibilities of such a system of farming followed consistently over a period of years.

This authoritative showing might be made the basis of a lengthy discussion pertinent to present agitation over the state of agriculture. The comparison is between the best result and the average of all results on the route, which means that part of the latter were above the average, with some probably approximating the best, while part were below the average, and grading down to very poor showings indeed.

This may be taken as illustrative of the situation generally, and as the report says, not alone in agriculture, but in other industries and in business generally. In every line there are producers on the verge of being crowded out, as the more efficient producers extend their operations. If all the farms in the country were as well conducted as the leading farm in this survey, a smaller number of farms and farmers would be required to give the present output of farm products, and unless there was curtailment in some way prices would fall to lower levels, probably until some of the farms most distant from market became unprofitable, and the farmers went into some other business. The simple fact would be that farming was overdone at that rate of production.

However, there is no danger that all the farms in the country will suddenly begin to produce with the efficiency of this outstanding one. No such crisis is impending. There is every reason to believe that farms operated upon this level of efficiency, wherever they are, will be safe from ruinous competition for a long time to come. It is possible and even probable, however, that with all that is being done by the national and state governments, by private research, and by examples in many communities of such farms as this one, that efficiency may rise so generally as to put severe pressure upon all the farms which are below the average in a competition like this. Unquestionably a good many are under pressure now.

What can be done about such a situation? Surely efficiency in agriculture is not to be discouraged. The fact that a smaller number of acres and farmers may be able to supply food for a given population is not something deplorable. The outlook for our rapidly increasing population would be alarming if such were not the case. Every industry and business must adapt itself to changes in methods of production, and in all cases it is desirable that productive efficiency shall increase. It is practically the only way to higher standards of living.

The function of an industry is not primarily to supply earnings to the people engaged in it; it is to perform the services which it undertakes to render. When there are enough people in it to perform these services, there is no need for more, and if more crowd into it the compensation is certain to fall, until some are diverted to occupations that offer better pay. If there are such occupations the persons who shift to them suffer no hardship; on the other

hand, if there are no such occupations, it is a mistake to say that compensation is too low in the one complained of. The real rewards of any industry come in the products of the other industries, and if all are on a common basis there is no cause for complaint.

Wholesale shifts of population out of one industry never occur; it is foolish to talk as though farms might be generally abandoned, or that their workers could be reduced to a state of "peonage" or "peasantry," whatever such terms mean, so long as wages are as they are in the cities, and anybody may exchange a farm job for a city job, whenever he wants to. Farm products have a first claim on the income of every family in the land, and a comparatively slight shift from the farms will always suffice to make the relations between consumption and production more favorable to the producer. Only a few workers need make it and these naturally will be the ones who have the greatest inducement to do so. They will serve their own interests and the interests of agriculture generally by doing so.

An Oklahoma Farmer

Apropos of the foregoing, it appears worth while to reproduce the following account of farming success in a locality some distance from Minnesota, but evidently by methods similar to those described above. This is taken from the Agricultural Review, Kansas City:

County Agent Liebhart of Rogers county, Oklahoma, in a recent report tells the following story of the success of Paul Stritzke on a farm five miles east of Talala: Mr. Stritzke has one of the best kept farms and is one of the best farmers in the county. His history is somewhat interesting in that it shows what can be accomplished by hard work and intelligence as applied to farming. He came to this country from Germany in 1903. Spent five years as a farm hand, then rented for 10 years. His ten years renting was on the same farm in Tulsa county. Eight years ago he bought the farm he is now on consisting of 195 acres, paying $40 per acre for it with practically no improvements on it. Today he has a good two story house with a cistern and water pumped into the house, a good barn and granary and implement shed and about half of his farm fenced hog tight. Everything is paid for and his farm is easily worth $18,000 to $20,000.

He follows a definite system of soil building with legumes and rotation. This year he has the following crops growing on his farm: alfalfa, sweet clover, cowpeas, soybeans, corn, kafir, oats, wheat, sudan grass and millet. He also has a good orchard and garden and eight stands of bees.

Testimony from the Corn Belt

Another bit of testimony as to the fruits of good farming methods comes direct from the corn belt and is particularly interesting in view of the complaints that have been emanating from that section. Mr. W. H. Brenton, "an Iowa Corn Belt Farmer-Banker," tells in the April issue of Nation's Business his experiences in the operation during the last 25 years of approximately 5,000 acres of land in Dallas and Polk Counties, Iowa. Of this land 1,500 acres is in pasture and not suitable for cultivation, while the balance varies from excellent farm lands to land of poor quality, all, however, being in a high state of productivity. The farming is done chiefly by hired labor. Accurate farm books kept for 47 years show the following figures of profits over the last 24 years:

1900	$32,625.29	1913	$21,204.25
1901	45,480.86	1914	38,043.18
1902	33,339.54	1915	37,795.12
1903	7,921.93	1916	42,000.35
1904	34,751.63	1917	88,317.90
1905	33,138.65	1918	91,093.85
1906	43,263.57	1919	85,333.49
1907	42,050.22	1920	21,582.33
1908	48,251.44	1921	3,209.93
1909	38,105.58	1922	64,114.29
1910	15,858.60	1923	30,224.30
1911	36,251.43	1924	37,661.57
1912	43,521.72		

From this table are computed the following figures showing return on the investment:

Five-year period	Average value land for periods per acre	Profits for 5-year periods	Approximate number acres	Total average value land for 5-year periods	Interest received on investment for each 5-year period
1900-1904......	$60	$154,119.25	5,000	$300,000.	10.27%
1905-1909......	75	204,809.46	5,000	375,000.	10.92%
1910-1914......	125	154,879.18	5,000	625,000.	4.95%
1915-1919......	200	344,540.71	5,000	1,000,000.	6.89%
1920-1924......	175	156,792.42	5,000	875,000.	3.58%

Commenting on these figures, Mr. Brenton goes on to say:

The first five-year period from 1900-1904 and the second period from 1905-1909 paid a handsome profit. Those years were profitable for cattle feeding and we fed heavily, fattening at least one thousand cattle and one thousand head of hogs each year. The third five-year period from 1910 to 1914 was not so profitable although the profit can be considered very reasonable. The fourth period from 1915-1919 shows a most satisfactory profit. Among those years it will be remembered were the two boom years before the period of deflation in 1920.

From these figures and the figures of the twenty-five-year period which I have shown, it will be noted that the period from 1920 to 1924 has paid the lowest rate on the investment. The last few years have been hard on the farmer, and many have been ruined financially, but that has been true of men in every line of business.

The blame cannot be placed on farming alone, but must be assigned to speculation. When a man buys a farm and pays a very small percentage down, giving a mortgage for the balance, it is not farming that brings disaster to that man, it is speculation. The above figures will bear me out that farming is not a poor investment over a period of years. There are good years and bad years, and a business cannot be judged by the profits of any one certain period but must be studied over a long period in order to determine its real producing power.

The values given the land for the twenty-five-year period average $127 per acre. The total amount earned in the twenty-five-year period was $1,015,-141.02, or an average earning of $40,605.64. Using that average annual earning and the average price of the land of the period, we have received 6.39 per cent upon our investment.

The profits I have shown for each year do not include the sale of any land but are composed entirely from the sale of livestock fed on the land. We raise practically all the grain which is fed our livestock. In determining the profits for our farms, money spent on new improvements is taken into account. Our farms are in much better condition at the end of the twenty-five-year period than they were at the beginning. Much money was spent for tiling which has also been included as an expense.

The following general reflections are commended to those who feel that the farmer's ills are overwhelming and that the only way out is through legislative assistance.

The farmer cannot look for the most of his assistance from legislation. Legislation can better many conditions but in the main part we must work out our own salvation by learning to farm better and to guard more closely our financial conditions. We shall have bad years, as does all business, but we cannot expect legislation to remove them. I believe that all business has its hardships and that farming has no more than its share. I see no reason why the government should guarantee the farmer a profit without doing the same for other business, which would not be sensible or practical. Very many politicians try to popularize themselves by telling the farmer of his unfortunate condition and by suggesting forms of legislation which will cure all his troubles. Many take those politicians seriously and vote for anyone who may offer a scheme to cure their ills.

I could cite many instances to prove that farming is a good investment. There are few better businesses than farming but a farm must be managed. It will not run itself. A good corn-belt farmer with a clear or lightly incumbered farm, practising sound methods, is bound to succeed. There are few businesses that can boast of such a record.

Milling and the Grain Trade

"Spillers Milling and Associated Industries, Limited," a corporation with 8,000 shareholders, is one of the most important companies in milling and the grain trade in the British Isles, and its annual report for the business year ended January 31, 1926, contains certain comments upon world conditions in that line which are of general interest. It notes for one thing that the importations of foreign grain into the United Kingdom in the year ended January 31, 1926, were 23 per cent less than in the preceding year, a very great reduction, which is not accounted for in the report, but must be explained by earlier buying in the crop year 1924-5 than in 1925-6, probably due in part to the reduced crop in the United States in 1925. Following is an excerpt from this report:

Russia is still a mystery, but has to be taken as a potential factor in the market. Although the actual exports have been small, the lack of information and the uncertainty as to the quantity they have to export and the time when they may sell tend to lead to market fluctuations.

Unfortunately, the present financial condition of the grain trade is very unsatisfactory, and, as is well known to you, Europe as a whole presents an impoverished state which has had a decided effect on the grain trade. It means that there is an absence of buying power and general confidence, and that the market is narrowed accordingly. These factors have been very largely instrumental in causing the wide fluctuations in values.

The selling side also of the business is now in fewer hands due to a number of causes, one of the principal ones being the growth of the pools. In other words, the increased powers of the sellers to market or withhold their stocks is a factor which makes it increasingly difficult to estimate the future courses of the markets with any reasonable certainty. Again, the decreasing number of buyers, owing to various circumstances, in this country, also affects the position as it follows that there is a much greater difficulty in disposing of our stocks, especially on a falling market.

Some important changes have taken place in the milling industry during the last few years resulting in our having to adopt a larger risk in market fluctuations. We have had to be responsible to a much larger degree for inducing the flow of wheat to this country, owing to the increasing narrowness of the market. Further, the bakers in this country do not now enter into long-period contracts for the supply of flour as they did before the war, whereas we have naturally to carry as large a stock of wheat as we did previously in order to maintain the continuous running of our mills.

The tendency on the part of the foreign grain importers since the war to reduce their operations, largely due to fluctuations in exchange, caused this milling company in 1923 to buy a line of 300 elevators in the western Canadian province, together with a terminal elevator at Vancouver, with a view to obtaining its supplies of grain direct from the farmers in local markets. It found itself embarked in the new enterprise just as the farmers, through their pool operations, had gotten well started in their policy of delivering their grain at their own terminal elevators on the Pacific Coast and Lake Superior. The Milling Company, faced with the probability that the cooperatives would erect more elevators, concluded to sell out and retire from that end of the business, accepting a loss. About one-half of the loss was due to the fact that the investment was made when the pound sterling was worth from $4.48 to $4.59 and closed it out with the pound sterling at about $4.86. In other words, the company sent out its capital when the pound was rated low in dollars and brought back after the restoration to par, an incident which illustrates the uncertainty of all international operations without a common standard of value. The report shows that over the last three years this company had a gain of 1.23 per cent on the turnover in the first year, .73 per cent in the next year and a loss, percentage not stated, last year. These figures for an important foreign flour-milling company, with what is known of general results in the domestic industry, including the state-operated mill of North Dakota, should quiet the talk about exorbitant profits in this line, but the agitation for state operation or regulation has been active in Great Britain in the past year.

Tea and Rubber Production

Two tropical products, tea and rubber, which a few years ago were very much depressed in price, are now bringing very satisfactory returns to producers, in both cases mainly because of expansion of demand.

The situation as to tea was set forth recently in the annual report of the Chairman of a British company, the Ceylon Tea Plantations Company, to the annual meeting of stockholders. It is interesting to read that what are called "waste lands" in Ceylon are bringing as much as $180 per acre for tea-planting and also that the development of both tea and rubber industries is hampered by the scarcity of

labor in a part of the world where we are accustomed to think that labor is always a drug on the market.

Since this company began operations, the cost of producing tea in Ceylon has increased by 4d. per lb. As I have explained to you on previous occasions, there are ample reasons why tea cannot now be produced at the lower figure of past years. We have no cause, however, to complain so long as the price of tea compensates us for the extra cost. The heavier charges in all departments of supervision, labour, and materials, however, enormously increase the capital outlay now required to open new lands with full equipment of buildings and machinery, thus hindering the development of further acreages in the low country of Ceylon.

There are large areas of waste lands belonging to the Government suitable either for tea or rubber cultivation, and at recent sales these waste lands have fetched as high as £37 10s. per acre, or a price in our opinion prohibitory for a low country tea proposition, whatever it may prove for rubber, unless the land is in close proximity to already opened land with the necessary road access.

When we look at other tea-producing countries we are also confronted with the fact that no extensions of any importance have taken place for some years, and there are no indications that there are likely to be any on an adequate scale for some years ahead. Northern India, that great tea-producing centre, owing to the difficulty in obtaining sufficient labor even to harvest its crops, has been for some years, and still is, unable for this reason to develop the large areas of land available for tea cultivation.

In Southern India, Java, and Sumatra, and, as I have already mentioned, also in Ceylon, owing to attraction of capital for rubber propositions, tea extensions are of the most limited character, and the areas planted during the last few years when at maturity will probably be insufficient to meet the demands of increased consumption.

Japan's output of tea is stationary, due, it is said, to the high cost of production for a low-priced tea, and naturally this has militated against the development of new areas. China is at a standstill, and until the present state of affairs in that country improves we can see no revival of their once flourishing tea trade.

With regard to our rubber interests for the current year it is at present uncertain, under the restriction scheme, what amount we may be allowed to export, but our present standard quantity is 1,828,345lb., and, as our first consideration is to conserve our bark and avoid overtapping, we do not anticipate that we shall exceed that figure, and may not even reach it.

Many estimates of the world's production and consumption of rubber for the current and future years have been made both here and in America, and the consensus of opinion seems to be that for 1926 there will be quite sufficient rubber for the world's requirements, but that for the next four years, should consumption continue to expand at the rate expected, there is likely to be a shortage of supply.

The British Colonial office, which on February 1 last authorized the exportation of 100 per cent of standard production during the ensuing quarter on May 1, extended this authority for another three months, but with the proviso that if the average price during the quarter fell below 1s 9d (approximately 42 cents) exports in the quarter beginning August 1 would be restricted to 80 per cent. The present price of 1s 8¼d to 1s 8½d is below this minimum, but the average for the quarter to date remains slightly above.